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Letter dated 7 January 2005 from the Secretary-General addressed to the President of the Security Council

Pursuant to Security Council resolution 1483 (2003), I have the honour to convey the attached letter from my representative on the International Advisory and Monitoring Board for Iraq outlining the activities of the Board in 2004 (see annex).

I should be grateful if you would bring the present letter and its annex to the attention of the members of the Security Council.

(*Signed*) Kofi A. **Annan**

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Annex

Letter dated 6 January 2005 from the representative of the Secretary-General on the International Advisory and Monitoring Board addressed to the Secretary-General

As your representative on the International Advisory and Monitoring Board (IAMB) for Iraq, I am pleased to provide you with a recap of the actions of IAMB during 2004.

My colleagues on IAMB and I have prepared a report which covers our operations from the establishment of IAMB until the completion of the audits covering the period during which the Coalition Provisional Authority was responsible for the Development Fund for Iraq (DFI). The report was released on 14 December 2004 and, as is the case with all IAMB documentation, was placed on the IAMB web site to make it available to the widest possible audience. A press release was issued to announce the availability of the report. The report presents the comments and conclusions of IAMB with respect to the audits of the oil export sales and the DFI operations for the period up to the transition of authority to the Interim Government of Iraq. I am enclosing a copy for your convenience.

IAMB met nine times in 2004. It approved the appointment of independent public accountants to audit DFI and Iraq's oil export sales. It ensured that the external auditor conducted its work in accordance with international auditing standards. IAMB received regular briefings on the progress of the audits.

The external auditor presented reports covering the period from inception to 31 December 2003 and covering the period from 1 January to 28 June 2004. IAMB concluded that the audits were conducted in accordance with agreed terms of reference and in accordance with appropriate standards.

The audit firm has concluded that all known oil proceeds, reported frozen assets and transfers from the oil-for-food programme have been properly and transparently accounted for in DFI. At the same time, on the basis of a review of the audit reports, IAMB believes that controls were insufficient to provide reasonable assurance (a) for the completeness of export sales of petroleum and petroleum products and (b) whether all DFI disbursements were made for the purposes intended. The priority findings of the audit reports include:

- Weaknesses in controls over oil extraction, including the absence of metering, resulting in the audit firm qualifying its audit opinions of the DFI statements of cash receipts and payments
- Control weaknesses in the administration of resources handled by the Coalition Provisional Authority, including inadequate record-keeping and accounting systems, and the uneven application of agreed-upon contracting procedures
- Inadequate controls identified at Iraqi spending ministries, including the absence of reconciliation procedures, insufficient payroll records, deviation from tendering procedures and inadequate contract monitoring by the Coalition Provisional Authority relating to payments on behalf of the Iraqi ministries

The audit reports have been submitted to the Iraqi Council of Ministers and the Coalition Provisional Authority. The control weaknesses identified in the audit reports all require attention and follow-up. As a matter of priority, the financial reporting and control systems need to be improved in key Iraqi disbursing ministries, including the State Oil Marketing Organization, and the regional Governments to overcome the identified control weaknesses, and controls need to be strengthened over oil extraction, as the principal source of income of Iraq.

These reports are available on the IAMB web site.

At the last meeting held in December, the Iraqi Government submitted to IAMB the result of its review of tenders for the nomination and appointment of an external auditor for DFI for the period 29 June to 31 December 2004. IAMB was satisfied that the review and selection process had been carried out properly and concurred with the recommendation of the Government for the appointment of KPMG as external auditor. Fifteen auditors from the Board of Supreme Audit of Iraq will be assigned to KPMG to assist in the audit and thereby facilitate transition when IAMB ceases to exist and the Board of Supreme Audit assumes the functions of IAMB.

The Board received six audit reports prepared by the United States Defense Contract Audit Agency on sole-sourced contracts which it had previously sought.

IAMB agreed to the terms of reference for a special audit of sole-sourced contracts using DFI funds proposed by the United States Government, to be completed by an independent auditor. The audit, which will cover the period up to the dissolution of the Coalition Provisional Authority, is expected to be completed by April 2005 and is to be made public. The audit will (a) identify non-competitively awarded contracts that used DFI funds, (b) summarize the findings of audits of such contracts that have already been conducted by various United States Government audit agencies and (c) if any non-competitively awarded contracts have not been the subject of audit, perform audit procedures of such contracts.

(*Signed*) Jean-Pierre **Halbwachs**
Representative of the Secretary-General to the
International Advisory and Monitoring Board